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May 20, 1998

Office of the Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: CC Docket Nos. 96-45 and 97-160
Nevada-Specific Cost Model

To the Office of the Secretary,

Pursuant to the attached Order issued by the Public Utilities Commission of Nevada, the state of Nevada will not be filing a state-specific cost study for universal service funding purposes at this time with the Federal Communications Commission.

Sincerely,

A handwritten signature in cursive script, reading "Jeanne Reynolds".

Jeanne Reynolds
Commission Secretary

Enclosure

cc: Sheryl Todd, Common Carrier Bureau

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BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In re investigation into the impact of)
the Telecommunications Act of 1996 on)
universal service in Nevada.)

Docket No. 97-5018

At a general session of the Public
Utilities Commission of Nevada, held
at its offices on May 14, 1998.

PRESENT: Chairman Judy Sheldrew
Commissioner Timothy Hay
Commissioner Lucy Stewart
Commission Secretary Jeanne Reynolds

ORDER

The Public Utilities Commission of Nevada makes the following findings
of fact and conclusions of law:

PROCEDURAL HISTORY:

1. On May 8, 1997, the Federal Communications Commission ("FCC") released the Universal Service Order (Federal State Joint Board on Universal Service, Report & Order, CC Docket No. 96-45, 12 FCC Rcd 8776 (1997), as corrected by Federal State Joint Board on Universal Service, CC Docket 96-45, Errata, FCC 97-157 (rel. June 4, 1997), appeal pending, Texas Office of Public Utility Counsel v. FCC, No. 97-60421 (5th Cir. filed June 25, 1997)). The FCC established that all mechanisms used to calculate the forward-looking economic cost of providing universal telephone service in rural, insular, and high cost areas must meet certain criteria. (Universal Service Order ¶250). The FCC also concluded that states could submit forward-looking economic cost studies as the basis for calculating federal universal service high cost support for non-rural carriers in lieu of using the federal mechanism for determining federal universal service high cost support for non-rural carriers. (Universal Service Order ¶¶247-251). As set forth in the Universal Service Order, states were to elect by August 15, 1997, whether they would conduct their own forward-looking economic cost studies. (Universal Service Order ¶248). States that elected to conduct such studies were to file them with the FCC on or before February 6, 1998. (Universal Service Order ¶248).

2. On May 15, 1997, the Public Service Commission of Nevada, now the Public Utilities Commission of Nevada ("Commission"), opened Docket No. 97-5018 for the purpose of investigating the impact of the Telecommunications Act

of 1996 on universal telephone service in Nevada.

3. On June 2, 1997, the Commission issued a Request for Comments and Notice of Workshop. On June 27, 1997, the Commission held its first duly noticed workshop in this docket. Written and oral comments were discussed at the workshop. Several parties indicated that the Commission should submit state conducted cost studies as well as coordinate universal service funding ("USF") and unbundled network element ("UNE") cost studies. On June 2-6 and 9-13, 1997, the Commission held hearings in Docket No. 96-9035, the Commission's investigation into procedures and methodologies to develop costs for bundled and unbundled telephone service elements in Nevada. Among other things, parties submitted evidence relative to coordinating cost studies for UNEs and levels of USF. (Docket No. 96-9035, Order, December 11, 1997, ¶¶44, 47, 50).

4. At a regularly scheduled agenda held on July 10, 1997, the Commission voted to notify the FCC that Nevada intended to utilize state-conducted cost studies to determine the forward looking economic cost of providing universal service in Nevada.

5. On December 3, 1997 the FCC extended the filing deadline for state-specific USF cost studies to April 24, 1998. (Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, Order, DA 97-2538).

6. On December 11, 1997, the Commission issued an order in Docket No. 96-9035 adopting the Hatfield Model 3.1 as the basis upon which the Commission would conduct further investigation into procedures and methodologies to develop costs for UNEs in Nevada. The Commission also agreed with those parties who indicated the Commission should coordinate the development of cost studies for UNEs and to determine levels of USF. On February 5, 1998, the Commission issued an order in Docket No. 96-9035 addressing additional issues in developing UNE cost studies. On March 6, 1998, the Commission issued a final order on the UNE model platform.

7. On January 7, 1998, this Commission issued a Procedural Order in Docket No. 97-5018. On February 20, 1998, the Commission issued an Amended

Procedural Order. On March 24, 1998, the Commission issued a Second Amended Procedural Order that required all local exchange carriers, excluding those defined as rural telephone companies in 47 U.S.C. §153(37), to file comments on the universal service funding ("USF") cost studies that this Commission should file with the FCC pursuant to the Universal Service Order. The Second Amended Procedural Order also specified the costing methodology parties must use to support their comments in order for such comments to be useful to the Commission. In addition, the Second Amended Procedural Order set the dates for filing comments reply comments and holding workshops for the purpose of discussing the comments received.

8. On March 11, 1998, the Commission issued a Procedural Order setting forth the filing format for the submission of comments and supporting cost studies on the USF cost studies that this Commission should file with the FCC. The FCC adopted specific criteria to guide the states as they conducted those studies. (Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Criteria for State-Conducted Economic Cost Studies, DA 97-1501 (rel. July 29, 1997)). The FCC will review each study submitted by a state, along with applicable comments. (Id. at 1). If the FCC finds that a state cost study meets the specified criteria, the FCC will approve such study for use in calculating federal support for non-rural eligible telecommunications carriers in rural, insular, and high cost areas in accordance with the Universal Service Order. (Id.). If a state cost study fails to meet the criteria adopted in the Universal Service Order, or if a state does not submit a study, the FCC will determine non-rural carriers' forward-looking economic cost of providing universal service in that state according to the FCC's forward-looking cost methodology. (Id.).

9. Workshops were held in this matter on March 30, April 3, 8, and 9, 1998. Appearances were made by AT&T Communications of Nevada, Inc. ("AT&T"), the Attorney General's Bureau of Consumer Protection - Utility Consumers' Advocate ("UCA"), Central Telephone Company - Nevada d/b/a Sprint of Nevada ("Sprint"), GTE of California Inc. d/b/a GTE of Nevada ("GTE"), Nevada Bell,

Nevada State Cable Television Association and Prime Cable of Las Vegas and NextLink Nevada ("Prime Cable, et al."), and the Regulatory Operations Staff ("Staff") of the Commission.

10. Pursuant to the workshop on March 30, 1998, and party discussions during that week, AT&T corrected two errors in the Nevada Hatfield Model. These corrections along with a change of name to "Nevada HAI Model" were adopted by the Commission in an Order dated April 20, 1998.

11. On April 23, 1998, the FCC extended the filing deadline for state-specific USF cost studies to May 26, 1998. (Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, Order, DA 98-788).

POSITION OF THE PARTIES:

MODEL PROBLEMS:

12. At the first workshop, Staff indicated that it was not yet in a position to recommend that the Commission use the Nevada HAI Model (hereafter, "NHM") for USF filing purposes. (Workshop, March 30, 1998, Tr. at 12).

13. The remaining problem that the parties encountered in using the NHM was with average loop length in rural wire centers. (Id. at 14). According to Staff, there was a great degree of discrepancy between what Nevada Bell said were the loop lengths and what the NHM was producing. (Id. at 15). This discrepancy occurred almost always in the rural wire centers. Staff was also concerned about the accuracy of loop lengths in wire centers for which data was unavailable because all of those wire centers were rural as well. (Id.).

14. At a subsequent workshop, Staff believed that the Commission could file the NHM with the FCC. However, Staff stood by its earlier comments that the loop length problem persisted and required further exploration. (Workshop, April 3, 1998, Tr. at 12). Staff recommended further testing of the NHM which could be completed in the next couple of months. (Id. at 24).

15. The UCA believed that there was not a way within the given model platforms to really deal with those most rural areas. (Workshop, March 30,

1998, Tr. at 26-27). In fact, the UCA stated that all model developers were struggling with this problem. (Id.). Short of going out and getting supplementary data on customer location, it is extremely difficult to correct the loop length problems for the most rural wire centers. (Id. at 28).

16. Nevada Bell stated that a short term fix of the loop length issue using closing factors would not meet FCC USF criterion which require the NHM to reflect actual loop lengths. (Id. at 43). Nevada Bell suggested that the Commission should take the time to get the model right because if the figures are too low, no LECs will go into those rural areas. (Id. at 50).

17. Sprint suggested correcting the loop length problem rather than implementing an interim approach. (Id. at 35).

18. AT&T agreed with Staff that the most significant problem with the model was the loop length issue. (Id. at 57). AT&T also stated that the model would benefit from additional review leading up to the UNE cost study filings. (Id. at 65).

PARTY PREPAREDNESS:

19. Staff indicated that in its analysis of the other parties' USF cost study filings, it was significantly limited due to the prevailing time constraints. (Workshop, April 8, 1998, Tr. at 6). With respect to Sprint's inputs, Staff received Sprint's supporting data just one day before the workshop. Staff was willing to participate in a discussion of inputs, but the process that was needed to examine those inputs and corresponding data and come to an independent conclusion was just not possible at the time. (Id. at 22-23). Consequently, it would be very difficult for Staff to make any recommendation to the Commission with regards to Sprint's inputs. (Id. at 82).

20. Sprint stated that inputs are at least 50% of the importance in the equation to determine USF support. (Workshop, March 30, 1998, Tr. at 37). The lack of comments on inputs has meant that the parties' focus has been to try and flush out the errors in the NHM up to this point. In this rush, Sprint expressed concern that the Commission was trying to achieve a deadline

that was not achievable. (Id. at 42). It was going to be a struggle to move into the discussion of inputs.

21. While Nevada Bell submitted its own USF cost study, it had primarily relied on the NHM's default inputs. Nevada Bell had not made enough progress with its own UNE inputs to use them in the USF filing. Consequently, Nevada Bell did not support the use of the default inputs and recommended that the Commission defer to the FCC's model choice. (Workshop, April 8, 1998, Tr. at 31-32).

22. AT&T was unable to analyze Sprint's inputs because AT&T had not had enough time to do comparison runs to identify the major items of contention. (Id. at 48).

FCC FILING EFFECTS:

23. Staff was concerned that if the NHM with its average loop length problems was filed with the FCC by the Commission, it would set a precedent affecting local ratemaking and possibly pricing of retail services in Nevada. (Workshop, March 30, 1998, Tr. at 21).

24. Staff believed that the Commission should not necessarily give up on developing a USF cost model because there are economies in doing both (USF and UNE cost models) simultaneously. (Id. at 23). Staff also thought that there may be some possibility that the FCC would consider a model filed late this year or possibly a model filed for next year's funding calculations. (Id.). However, Staff also expressed concern that the FCC was unclear exactly what it was going to do on an ongoing basis with respect to any modifications to the NHM submitted to the FCC by Nevada. (Workshop, April 3, 1998, Tr. at 22-23).

25. The UCA was also concerned that by submitting a model to the FCC for USF purposes, the state would be locked into a model platform and thereby be subject to the FCC's decision making. The UCA believed that the FCC's position was unclear in dealing with rural ILECs and that Nevada would retain the most flexibility by not filing the NHM at this time. (Workshop, March 30, 1998, Tr. at 28). If the FCC accepted the NHM, then Nevada would have to use

the same model for in-state USF. If Nevada did not submit anything, then the FCC would use its own model choice for determining 25% of Nevada's USF, and then Nevada would be free to do what it wanted for the other 75% of its USF. (*Id.* at 31). At the second workshop, the UCA remained skeptical about the benefits of filing the NHM with the FCC. (Workshop, April 3, 1998, Tr. at 27).

26. Sprint was also unclear what model changes, if any, would be allowed by the FCC. (Workshop, April 8, 1998, Tr. at 48).

27. Nevada Bell stated that defaulting to the FCC model for USF purposes would not lock the Commission into using the same model for UNE pricing services. (Workshop, March 30, 1998, Tr. at 43).

28. AT&T, along the same lines, believed that the Commission would have more flexibility by submitting a model with the FCC. In fact, if the cost estimates were too high, this would create an incentive to serve people in those rural wire centers. (*Id.* at 63).

COMMISSION DISCUSSION:

29. The Commission realizes that no matter how much work goes into creating a model platform, there will never be a perfect model. The NHM appears reliable for the vast majority of lines in Nevada. However, the Commission believes that the loop length problem, as parties suggested, deserves further attention.

30. The loop length issue for rural wire centers is a problem facing all current model developers. The FCC recognized this inherent problem and has requested further comments on alternative sources for customer location data. (Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, DA 98-848 (rel. May 4, 1998)). For instance, the FCC is requesting comments on whether the benefits of geocoding using a global positioning satellite (GPS) device outweigh the burdens associated with developing the data. Some parties contend that the GPS data is more precise than present geocoding methods utilized by the HAI (NHM).

31. The inputs used in the NHM are in many cases as important as the model platform itself. Consequently, the Commission finds that the parties' lack of time to prepare for a discussion of the inputs greatly impeded their ability to adequately analyze and comment on the input issues.

32. As a result, the Commission does not believe that it has a sufficient basis upon which to make a determination on the reasonableness of the figures produced by the NHM at this time.

33. The Commission is also concerned about the lack of clarity from the FCC regarding future modifications to the NHM that the Commission would undoubtedly submit as the NHM is refined for USF purposes as well as the effect of this filing on state USF.

THEREFORE, based on the foregoing, it is hereby ORDERED that:

1. The Commission will not file a state-specific cost study with the FCC to determine the forward-looking cost of providing the supported services within Nevada for the reasons expressed above.

2. The Commission reserves the right to file a state-specific cost study for USF purposes with the FCC at a future date if circumstances warrant such action.

3. The Commission Secretary is hereby authorized to CLOSE Docket No. 97-5018.

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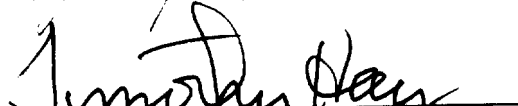
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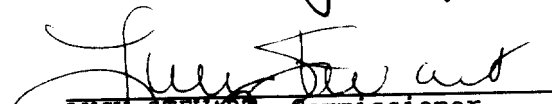
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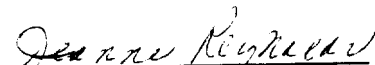
4. The Commission retains jurisdiction for the purpose of correcting any errors which may have occurred in the drafting or issuance of this Order.

By the Commission,


JUDY SHELDREW, Commissioner


TIMOTHY HAY, Commissioner
and Presiding Officer


LUCY STEWART, Commissioner

Attest: 
JEANNE REYNOLDS,
Commission Secretary

Dated: Carson City, Nevada

(SEAL) 7/19/98